

Mr. David Culpepper, Senior Reimbursement Analyst
Paragon Health Network, Inc.
One Ravinia Drive, Suite 1500
Atlanta, Georgia 30346

Re: AC# 3-LCS-J5 – GCI Village Green, Inc. d/b/a Lake City-Scranton Healthcare
Center

Dear Mr. Culpepper:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1994 through September 30, 1995. That report was used to set the rate covering the contract periods beginning October 1, 1996.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Edgar A. Vaughn, Jr., CPA
State Auditor

EAVjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Mac Carroll

GCI VILLAGE GREEN, INC.
d/b/a LAKE CITY-SCRANTON HEALTHCARE CENTER
SCRANTON, SOUTH CAROLINA

CONTRACT PERIODS
BEGINNING OCTOBER 1, 1996
AC# 3-LCS-J5

REPORT ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 27, 1998

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with GCI Village Green, Inc. d/b/a Lake City-Scranton Healthcare Center, for the contract periods beginning October 1, 1996 and for the twelve month cost report period ended September 30, 1995, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by GCI Village Green, Inc. d/b/a Lake City-Scranton Healthcare Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and GCI Village Green, Inc. d/b/a Lake City-Scranton Healthcare Center dated as of September 30, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
February 27, 1998

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the South Carolina Department of Health and Human Services and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Edgar A. Vaughn, Jr., CPA
State Auditor

LAKE CITY-SCRANTON HEALTHCARE CENTER

Computation of Rate Change
For the Contract Periods
Beginning October 1, 1996
AC# 3-LCS-J5

10/01/96-
09/30/97

Interim reimbursement rate (1)	\$70.45
Adjusted reimbursement rate	<u>68.57</u>
Decrease in reimbursement rate	\$ <u><u>1.88</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 19, 1997

LAKE CITY-SCRANTON HEALTHCARE CENTER
 Computation of Adjusted Reimbursement Rate
 For the Contract Periods October 1, 1996 Through September 30, 1997
 AC# 3-LCS-J5

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$3.00	\$29.41	\$42.83	\$29.41
Dietary	<u>.66</u>	<u>8.42</u>	<u>9.46</u>	<u>8.42</u>
Subtotal	<u>\$3.66</u>	37.83	52.29	37.83
Laundry/Housekeeping/Maint.	\$.57	6.75	7.32	6.75
Administration & Med. Rec.	<u>.22</u>	<u>8.38</u>	<u>8.60</u>	<u>8.38</u>
Subtotal	<u>\$.79</u>	52.96	<u>\$68.21</u>	52.96
<u>Costs Not Subject to Standards:</u>				
Utilities		2.42		2.42
Special Services		-		-
Medical Supplies & Oxy.		.64		.64
Taxes and Insurance		1.09		1.09
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$57.11</u>		57.11
Inflation Factor (4.90%)				2.80
Cost of Capital				6.66
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				.79
Cost Incentive - For Gen. Serv. & Dietary				3.66
Effect of \$1.75 Cap on Cost/Profit Incentives and Cost Sharing				(2.70)
Minimum Wage Add-On				<u>.25</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$68.57</u>

LAKE CITY-SCRANTON HEALTHCARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1995
AC# 3-LCS-J5

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		Adjusted <u>Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$ 947,642	\$ 9,097 (4) 340 (4)	\$ 4,768 (3) 124 (3) 8,923 (5) 332 (5) 9,060 (6)	\$ 933,872
Dietary	269,635	1,181 (4)	1,808 (2) 601 (3) 1,099 (5)	267,308
Laundry	31,809	204 (4)	43 (3) 106 (5)	31,864
Housekeeping	125,163	975 (4)	388 (3) 951 (5)	124,799
Maintenance	56,471	258 (4) 1,279 (8)	124 (3) 243 (5)	57,641
Administration & Medical Records	267,361	1,027 (4) 9,060 (6)	5,970 (2) 310 (3) 798 (5) 4,348 (8)	266,022
Utilities	71,586	5,226 (8)	-	76,812
Special Services	-	-	-	-
Medical Supplies & Oxygen	77,646	-	56,622 (2) 649 (7)	20,375

LAKE CITY-SCRANTON HEALTHCARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1995
AC# 3-LCS-J5

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Taxes & Insurance	24,693	10,061 (8)	-	34,754
Legal Fees	-	-	-	-
Cost of Capital	<u>209,483</u>	<u>2,954</u> (1)	<u>869</u> (9)	<u>211,568</u>
Subtotal	2,081,489	41,662	98,136	2,025,015
Ancillary	29,010	-	-	29,010
Non-Allowable	203,072	64,400 (2) 12,452 (5) 649 (7) <u>869</u> (9)	2,954 (1) 12,218 (8)	266,270
Total Operating Expenses	<u>\$2,313,571</u>	<u>\$120,032</u>	<u>\$113,308</u>	<u>\$2,320,295</u>
TOTAL PATIENT DAYS	<u>31,750</u>	<u>-</u>	<u>-</u>	<u>31,750</u>
TOTAL BEDS	<u>88</u>			

LAKE CITY-SCRANTON HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1995
AC# 3-LCS-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 58,410	
	Cost of Capital	2,954	
	Accumulated Depreciation		\$ 39,793
	Other Equity		18,617
	Nonallowable		2,954
	To adjust fixed assets and related depreciation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	64,400	
	Dietary		1,808
	Medical Records		5,970
	Medical Supplies		56,622
	To disallow expense due to lack of adequate documentation HIM-15-1, Section 2304		
3	Retained Earnings	6,358	
	Nursing		4,768
	Restorative		124
	Dietary		601
	Laundry		43
	Housekeeping		388
	Maintenance		124
	Administration		310
	To properly charge salaries and related benefits applicable to the prior period HIM-15-1, Section 2302.1		
4	Nursing	9,097	
	Restorative	340	
	Dietary	1,181	
	Laundry	204	
	Housekeeping	975	
	Maintenance	258	
	Administration	1,027	
	Accrued PTO		13,082
	To adjust PTO accrual to allowable HIM-15-1, Sections 2302.1 and 2304		

LAKE CITY-SCRANTON HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1995
AC# 3-LCS-J5

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nonallowable	12,452	
	Nursing		8,923
	Restorative		332
	Dietary		1,099
	Laundry		106
	Housekeeping		951
	Maintenance		243
	Administration		798
	To adjust workers' compensation expense to allowable HIM-15-1, Section 2304		
6	Medical Records	9,060	
	Restorative		9,060
	To reclassify medical records salaries and related benefits to the proper cost center HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
7	Nonallowable	649	
	Medical Supplies		649
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
8	Maintenance	1,279	
	Utilities	5,226	
	Taxes and Insurance	10,061	
	Administration		4,348
	Nonallowable		12,218
	To adjust home office cost allocation to allowable HIM-15-1, Sections 2304 and 2150		

LAKE CITY-SCRANTON HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1995
AC# 3-LCS-J5

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Nonallowable Cost of Capital	869	869
	To adjust cost of capital to allowable State Plan, Attachment 4.19D	_____	_____
	TOTAL ADJUSTMENTS	\$ <u>184,800</u>	\$ <u>184,800</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

LAKE CITY-SCRANTON HEALTHCARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1995
AC# 3-LCS-J5

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.0472</u>
Deemed Asset Value (Per Bed)	31,973
Number of Beds	<u>88</u>
Deemed Asset Value	2,813,624
Improvements Since 1981	154,942
Accumulated Depreciation at 9/30/95	<u>(666,304)</u>
Deemed Depreciated Value	2,302,262
Market Rate of Return	<u>0.070</u>
Total Annual Return	161,158
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	161,158
Depreciation Expense	50,410
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	211,568
Total Patient Days (Minimum 97% Occupancy)	<u>31,750</u>
Cost of Capital Per Diem	\$ <u><u>6.66</u></u>

LAKE CITY-SCRANTON HEALTHCARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1995
AC# 3-LCS-J5

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ 4.64
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>8.63</u>
Reimbursable Cost of Capital Per Diem	\$ 6.66
Cost of Capital Per Diem	<u>6.66</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>